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SUBJECT: SOUTH AFRICA ECONOMIC NEWS WEEKLY NEWSLETTER AUGUST 22,
2008 ISSUE

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¶1. (U) Summary. This is Volume 8, issue 34 of U.S. Embassy Pretoria's South Africa Economic News Weekly Newsletter.

Topics of this week's newsletter are:

- Mining and Manufacturing Boost GDP Growth
 - Slowdown Weighs on Construction Sector
 - ABSA to Lend for Old Township House Upgrades
 - Taxi Industry Draws Battle Lines Against Proposed Bus Rapid Transit Systems
 - Eskom to Increase Its Base-load Capacity Through Independent Power Producers
 - Power Cuts Threaten Aluminum Smelters
 - Broadband Infraco Expected to Receive License, but It's West Coast Cable Project Not Likely to be Ready for World Cup.
 - Ambient Air Quality Monitors for Hot Spots
- End Summary.

Mining and Manufacturing Boost GDP Growth

¶2. (U) South Africa's GDP rebounded markedly to 4.9% q/q (4.5% y/y) in the second quarter of 2008 from 2.1% q/q (4.0% y/y) in the first quarter of 2008. The recovery was largely the result of a rebound in the mining and manufacturing sectors after a slump in the first quarter caused mainly by electricity supply disruptions, which saw mining production at some large mines shut down for several days and power supplies to large industrial users being curtailed. Growth in the mining sector jumped 15.6% q/q in the second quarter after dipping 22.1%, while the manufacturing sector grew 14.5% q/q (4.9% y/y) from -1% q/q in the first quarter (1.1% y/y). As expected, activity in the consumer-sensitive sectors was weighed down by high interest rates, the impact of the National Credit Act (NCA), and plummeting consumer confidence. For instance, the wholesale, retail trade and hotels sector contracted 2.2% q/q after rising 3.6% in the first quarter. Although the q/q data are subject to large base effects, the y/y data, thanks to a surge in manufacturing, does suggest a somewhat resilient economy, which should dispel recessionary fears. Nonetheless, the production-side data suggest that tighter monetary policy has had an impact on consumption spending. Most economists believe that the latest GDP data provide little reason for the SARB to change course on monetary policy, and that a combination of a more favorable inflation outlook and a moderation in economic activity will see the SARB on hold for the rest of the year, with the potential for interest rates to start

falling in the second quarter of 2009. (ABSA-Newsletter, August 20, 2008)

Slowdown Weighs on Construction Sector

13. (U) According to Statistics South Africa (StatsSA), private sector building plans passed by municipalities decreased by 18.3% in the second quarter of 2008, indicating that investment in residential properties remained under severe strain, while strength in the commercial sector may have also begun to wane. This follows news of a slowdown in South Africa's booming construction sector over the same period, as rising debt costs and a slowdown in domestic demand takes the edge off double-digit growth seen since the start of 2004. ABSA Bank Property Analyst Jacques du Toit said the residential building statistics not only confirm the current slowdown in the housing market, but also indicates that conditions in this segment of the property market will remain subdued for the rest of the year and into 2009. Building plan statistics are seen as an important leading indicator for the property market, which has been knocked by the cumulative five-percentage-point increase in lending rates seen since mid-2006. (Business Day & Beeld, August 21, 2008)

ABSA to Lend for Old Township House Upgrades JSE Down

14. (U) ABSA bank, South Africa's largest home loan lender, launched a program to finance extensions and upgrades to old township houses. Managing Executive for ABSA Home Loans Luthando Vutula said the program is aimed at helping people create personal wealth. Township houses could only be rented prior to 1994. After 1994, the new

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government launched a campaign to give titles to the occupants. "What is important is that we understand there is a slowdown in new housing developments as a result of escalating building costs and the shortage of land, and therefore we have had fewer new houses available in the market. We understand that people in old township houses want to improve their lifestyle," said Vutula. The loans for extensions could range from R20,000 (\$2,600) to R400,000 (\$52,000), depending on the borrower's monthly income and the value of the property. (Business Day, August 21, 2008)

Taxi Industry Draws Battle Lines Against Proposed Bus Rapid Transit Systems

15. (U) The minibus taxi industry vowed to fight the government for lack of consultation over the implementation of the proposed Gauteng bus rapid transit (BRT) system. The General Secretary of the South African National Taxi Council (SANTACO) Philip Taaibosch said, "We will make use of all avenues available to us to protect the rights of taxi operators." SANTACO felt that its business was threatened by the proposed BRT systems for Johannesburg and Pretoria. Taaibosch said the taxi industry was not opposed to the Gauteng transformation strategy; however, the industry needed to be involved as it was an integral part of the transport system. He noted that the taxi industry moved the largest percentage of the commuting public and yet the industry was not involved in the BRT system. (Business Report and Engineering News, August 18-19, 2008)

Eskom to Increase Its Base-load Capacity Through Independent Power Producers

16. (U) State-owned power utility Eskom issued a request for qualification (RFQ) from national and international companies for the development of its multi-site base-load independent power producer (IPP) program on August 17. Eskom is seeking to secure between 2,100 MW and 4,500 MW of power from private developers with

a minimum plant capacity of 200 MW. Eskom had called for an expression of interest for new base-load IPPs in April to address a potential power supply gap after two new coal fired base-load stations - Medupi and Kusile - are commissioned, and before the planned nuclear power station (scheduled for 2017) is up and running. Eskom received expressions of interest from a "fairly global mix" of 76 companies, HSBC Africa Senior Vice-President Paul Eardley-Taylor said. HSBC Africa is the lead financial adviser to Eskom on the multi-site base load IPP program. The program would be developed on a build-own-operate basis, and the term of the contract would be 25 years. The IPP company would be required to enter into an equivalent-term agreement with a fuel supplier to procure fuel supply. Interested parties were required to select sites in South Africa based on access to fuel, transmission infrastructure, and water sources. Connection to the Eskom transmission grid would be made in compliance with the terms of the Grid Code as published by the national regulator. Eskom had previously indicated that it could pursue a hybrid-type Eskom/private sector IPP arrangement. Under a hybrid structure Eskom could complete much of the upfront planning and engineering design. The RFQ stage of the process would not require a detailed proposal, but a company would need to show experience in the industry and prove that it could qualify for the bidding process, Eardley-Taylor stated. The RFQ followed a Cabinet announcement in September 2007, which designated Eskom as the single buyer of power from IPPs. Shareholder arrangement criteria are being finalized, and they are expected to include a minimum of 25% shareholding to be allocated to black economic-empowerment compliant investors. (Engineering News, August 18, 2008)

Power Cuts Threaten Aluminum Smelters

17. (U) BHP Billiton sounded the death knoll for the \$3.25 billion Coega aluminum smelter, stating that there would be no extra local aluminum capacity built until 2018 due to Eskom's power cutbacks. BHP Billiton CEO Marius Kloppers said the rationing would prevent the construction of new smelters or the expansion of existing units. Rio Tinto, which BHP Billiton is seeking to buy, was planning to make a decision on proceeding with the Coega smelter later this

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year. However, the power crisis in January resulted in Rio Tinto putting the Coega smelter on hold until at least 2012, when Eskom is expected to complete the first of its new base-load power stations. Eskom had agreed to supply the Coega smelter with 1,350 megawatts in November 2006 before the power cutbacks. Coega Aluminium spokesperson Robert Valdmanis was not available to comment on whether the status of the project had changed. BHP Billiton operates three smelters in Southern Africa that have been disrupted by the power curbs. In Richards Bay it owns the Hillside and Bayside smelters. In Maputo it has a 47.1% stake in the Mozal smelter. BHP Billiton said in March that it would partially close the Bayside aluminum smelter, while the Hillside smelter and the Mozal plant would run at reduced capacity. "There's going to be no power for a long time and I'm very surprised that people are still talking about building new capacity," Kloppers said. He stressed that there would not be capacity expansions at BHP Billiton's local smelters "under almost any scenario that I can envisage for at least the next decade". The group said annual earnings from its aluminum operations fell 21% because of a weaker dollar and as output from South Africa fell 8% following power shortages. Energy makes up about 40% of the cost of producing aluminum. (Business Report, August 18, 2008)

Broadband Infraco Expected to Receive License, but It's West Coast Cable Project Not Likely to be Ready for World Cup.

18. (U) Minister of Communications Ivy Matsepe-Casaburri is expected to issue a policy direction for the Independent Communications Authority of South Africa (ICASA) to license Broadband Infraco. The State-owned broadband infrastructure company will negotiate the license terms and conditions directly with ICASA. Broadband Infraco

CEO Dave Smith said licensing the entity would enable it to reduce the cost of national and international long-distance broadband connectivity. Smith noted that the Electronic Communications Amendment Act, which came into effect in February, would encourage investment in the sector. In his State of the Nation address in February, President Mbeki said the licensing of Infraco would be completed this year and that, by working with other governments on the continent and with the private sector, the process of launching the African West Coast Cable (AWCC) - the undersea cable linking Cape Town with London - would also be completed. The cable, which will cost \$510-million, will have units branching to at least ten countries along the West Coast of Africa. "There will be no central pricing agreements and all participants will market their capacity independently of each other in a competitive environment," Smith said. He added that "as far as possible, participants will get the same rights to expand and trade their capacity as if they had built their own independent cable system." The government will remain the major shareholder, owning more than 25% of the equity. While the cable was originally intended to be completed in time for the 2010 Qcable was originally intended to be completed in time for the 2010 FIFA World Cup, a delay in the finalization of the commercial and legal agreements means that the project will now only be completed after the World Cup. According to press reports, the World Cup traffic will be carried on Telkom's upgraded Sat-3 system. Provisional arrangements might also be made to carry 2010 World Cup traffic on the AWCC by completing the section of the cable that connects to Portugal from the northern branching unit before the World Cup. (Engineering News, August 15, 2008)

Ambient Air Quality Monitors for Hot Spots

19. (U) The Department of Environmental Affairs (DEAT) and the Mpumalanga provincial Department of Agriculture and Land Affairs (DALA) have installed new air quality monitoring stations in one of South Africa's air pollution hot spots, a 31,106 square kilometer area encompassing the small towns of Balfour, Middleburg, Standerton and Witbank, in the near eastern part of the country. Pollution in these areas is created mostly by heavy industry operations, residential coal burning and veld fires. According to the DEAT Deputy Minister Rejoice Mabudafhasi, the air quality monitoring stations will help mitigate pollution. She said they would be able to identify pollutants and the specific areas from where they came. The stations would be able to detect and measure pollutants such as benzene, carbon monoxide, lead, sulphur dioxide etc. The data collected would be made available to the general public and relevant

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stake holders such as the Air Quality Officers Forum, in which all the municipalities in the priority areas are represented. Mabudafhasi also noted that once a polluter was identified, especially the heavy industry companies, DEAT would show them their levels of pollution and then work with them to remedy the situation over a stipulated time frame. She also added that polluters could be subjected to fines or jail terms if they were recalcitrant or ignored reform time frames. The monitoring stations were installed at a cost of R1million (\$134,000) each, with the financial partnership of DALA and the Royal Danish Embassy. (Engineering News, August 18, 2008)

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